SECOND QUARTER 2021 MARKET REPORT
GREATER LOS ANGELES INDUSTRIAL

Voit REAL ESTATE SERVICES

OVERVIEW. Los Angeles industrial tenants and buyers continued their struggle to find quality product in 2Q. Vacancy took another dip to a record low. Net absorption was further into positive territory and lease rates posted another gain. Transaction activity was also up, as those looking for space were quick to snap anything that became available. The pandemic seems to be behind us, and employees are getting back work in the industrial sector, but “help wanted” signs are everywhere and employers are having trouble filling available positions. Demand for both sale and lease product is getting even more intense, and the low level of new deliveries has perpetuated the shortage of quality space. Port activity rose again in 2Q, a clear sign that the global supply chain is catching up after the pandemic slowdown.

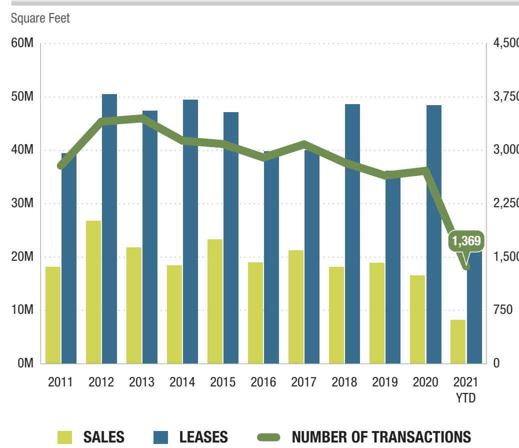
VACANCY/AVAILABILITY. The overall vacancy rate in Los Angeles fell another 83 basis points to 1.76% in 2Q. All four major Los Angeles area submarkets posted declines. Central Los Angeles, the largest submarket with a base inventory of 260 MSF, has the highest vacancy rate, but it ended the quarter at a scant 2.09%. Mid-Counties vacancy now sits at just 1.02%. South Bay ended 2Q with a vacancy rate of 1.96%, while the San Gabriel Valley saw its vacancy fall 23 basis points to 1.51%. Quantity is not the whole problem, however, as a high proportion of the vacant space has various degrees of functional obsolescence, which is forcing tenants to pay record rates for inferior space or look to the Inland Empire, where supply is also running short. The availability rate, which includes vacant space and occupied space offered for sale or lease, also fell 126 basis points in 2Q, further evidence of how fast buildings are moving.

LEASE RATES. Tight supply means higher rents and that was the case again in 2Q. The average asking lease rate moved up $0.02 in 2Q to an all-time high of $1.09 on an industrial gross basis. But some of the higher quality buildings are marketed without asking rates, so the real asking rate is probably higher than we report. Landlords still hold all the cards in lease negotiations, and they have the luxury of choosing between several interested tenants willing to compete for their space. Concessions are at a minimum and it takes strong credit to get the attention of landlords, especially those at the institutional level.

TRANSACTION ACTIVITY. Transaction activity tracks the deals executed in a given period, and it finished the quarter at 14.3 MSF, just under 1Q’s total of 15.4 MSF. Year-over-year transaction activity was up by 4 MSF, which reflects the initial slowdown that came at the beginning of the pandemic. Such strong activity is clear indication that the pandemic had little effect on market direction. In 2Q, 487 leases were signed for a total of 9.1 MSF, and another 181 properties were sold totaling 5.2 MSF. The biggest lease was a 400,000 SF space taken by Houdini, Inc. in Buena Park, and the biggest sale was a $125,750,000 investment sale in Carson to CenterPoint Properties by Universal Warehouse Company. In fact, the five largest sales of the quarter were third-party investor deals. Total transaction activity would be much higher across the entire region if more product were available.

VACANCY, AVAILABILITY & AVERAGE ASKING LEASE RATES

TRANSACTION VOLUME & NUMBER OF TRANSACTIONS



Market Statistics

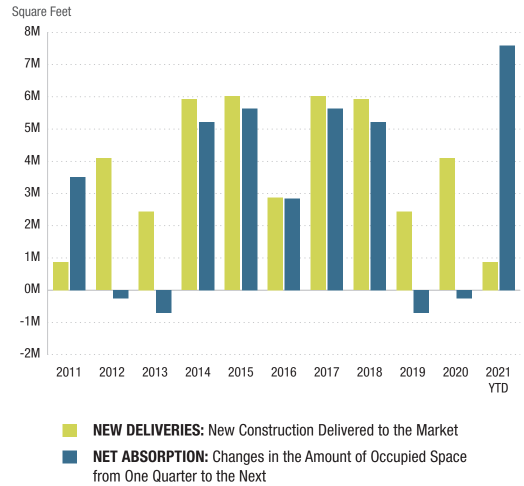
	Change Over Last Quarter		2Q 2021	1Q 2021	2Q 2020	% Change Over Last Year
Vacancy Rate	▼	DOWN	1.76%	2.59%	2.89%	(39.23%)
Availability Rate	▼	DOWN	2.94%	3.74%	3.74%	(21.45%)
Average Asking Lease Rate	▲	UP	$1.09	$1.07	$1.07	1.87%
Sale & Lease Transactions	▼	DOWN	14,302,816	15,410,316	10,480,881	36.47%
Gross Absorption	▲	UP	12,849,446	9,872,561	5,433,723	136.48%
Net Absorption	▲	POSITIVE	3,680,774	3,514,526	(958,309)	N/A

ABSORPTION. Net absorption, the net difference in occupied space from one period to another, was relatively flat in 2Q, but was firmly in positive territory at just under 3.7 MSF, a remarkable number given such tight supply. Gross absorption, which measures total move-ins, outperformed 1Q by 1.5 MSF, ending the period at 12.8 MSF. South Bay topped all submarkets at just under 4 MSF, followed closely by Central Los Angeles at 3.7 MSF. Year-over-year, gross absorption for the entire Los Angeles market was up by more than 136%, which reflects the impact of the initial shutdown that came in March of 2020.

CONSTRUCTION. The entire Los Angeles area is starving for first-generation space. Only 2.9 MSF is in the construction queue in a 739 MSF market. Over 1.1 MSF of the space that is underway is in two cities, Irwindale at 848,000 SF and City of Industry at 280,000 SF. Another 731,000 SF is being built in the Downtown submarket. Only 9 of 49 cities across the region have a single square foot of space currently under construction. Land sites suitable for ground-up development remain scarce and prohibitively expensive.

EMPLOYMENT. The seasonally adjusted unemployment rate in Los Angeles County remained unchanged at 11.1% in May 2021, from a revised 11.1% in April 2021, and was below the rate of 18.8% one year ago. Sectors expanding employment: trade, transportation and utilities (up 3,100), manufacturing (up 2,900), and financial activities (up 100).

NEW DELIVERIES & NET ABSORPTION



Forecast

The Los Angeles industrial market will tighten even further through the balance of 2021. The entire Southern California economy is recovering quickly and that will keep the pressure on lease rates, sales prices, and vacancy. We cannot expect construction to ramp up any time soon. Only six million square feet are in the planning stages and that wouldn't be enough to meet current demand if it was all under construction today. Expect demand from tenants and prospective owner/user purchasers to intensify. Institutional investors will continue their aggressive pursuit of industrial product, especially the big-box distribution buildings that are in such high demand from the e-commerce sector. That will keep cap rates at record lows.

However, the president's American Families Plan, currently being debated in Congress, contains provisions to tax capital gains at ordinary rates, limit 1031 exchanges to the first $500,000 in gain and assess capital gains taxes at death even if the asset is held, which would effectively eliminate the step-up rule, a widely used estate planning strategy. If one or more of these tax hikes becomes law, it could have a significant impact on commercial property values.

Significant Transactions

Sales

Property Address	Submarket	Square Feet	Sale Price	Buyer	Seller
2850 Del Amo Blvd.	Carson	264,450	$125,750,000	CenterPoint Properties	Universal Warehouse Co.
12352 Whittier Blvd.	Whittier	224,628	$31,500,000	Western Realco	Leggett & Platt Canada Co.
3040 E. 12th St.	Los Angeles	199,839	$28,900,000	Creative Properties LLC	Two Thumbs LLC
2575 El Presidio St.	Carson	196,300	$30,000,000	Thor Equities	Texolini Inc.
4525-4545 E. Ardine St.	South Gate	142,000	$42,000,000	Pacific Industrial LLC	Hwa Chan Trading Corporation

Leases

Property Address	Submarket	Square Feet	Transaction Date	Tenant	Owner
6311 Knott Ave.	Buena Park	399,473	May-2021	Houdini, Inc.	Clarion Partners
16012-16030 Arhtur St. - Renewal	Cerritos	290,000	Jun-2021	Bergen Shippers Corporation	Link Logistics Real Estate
4901-5361 Alexander, #5361	Commerce	210,952	Apr-2021	Unix Packaging	Prologis
21950 Arnold Center Rd.	Carson	185,629	Apr-2021	SEKO Worldwide	Watson Land Company
7261 E Slauson Ave	Commerce	107,528	Apr-2021	Popcornopolis	Unix

	INVENTORY				VACANCY & LEASE RATES					ABSORPTION			
	Number of Bldgs.	Net Rentable Square Feet	Square Feet U / C	Square Feet Planned	Square Feet Vacant	Vacancy Rate 2Q2021	Square Feet Available	Availability Rate 2Q2021	Average Asking Lease Rate	Net Absorption 2Q2021	Net Absorption 2021	Gross Absorption 2Q2021	Gross Absorption 2021
Central													
Bell/Bell Gardens/Maywood	199	7,618,310	0	0	101,219	1.33%	157,746	2.07%	$0.99	16,700	55,740	16,700	73,944
City of Commerce	736	45,292,394	0	114,898	421,679	0.93%	1,048,258	2.31%	$1.09	326,131	491,665	993,785	1,694,931
Huntington Park/Cudahy	195	4,785,214	0	45,400	52,852	1.10%	78,004	1.63%	$1.31	10,700	43,230	35,852	73,782
Downtown	5,111	127,145,818	730,141	270,142	4,117,601	3.24%	7,740,298	6.09%	$1.06	(38,107)	239,791	1,499,607	3,045,931
Montebello/Monterey Park	314	11,724,585	0	25,456	60,547	0.52%	57,476	0.49%	$1.05	(11,996)	67,519	41,581	248,514
Pico Rivera	197	10,457,031	40,900	0	45,355	0.43%	156,183	1.49%	$1.10	24,179	111,222	97,027	569,147
South Gate	229	11,015,731	0	550,000	51,061	0.46%	71,821	0.65%	$0.00	112,385	91,410	66,704	277,417
Vernon	779	42,580,939	0	105,448	609,437	1.43%	1,248,311	2.93%	$0.82	176,840	356,205	925,945	1,542,496
Total	7,760	260,620,022	771,041	1,111,344	5,459,751	2.09%	10,558,097	4.05%	$1.05	616,832	1,456,782	3,677,201	7,526,162
Mid Counties													
Artesia/Cerritos	280	13,156,074	0	0	240,538	1.83%	410,283	3.12%	$1.06	204,018	305,005	436,268	790,300
Bellflower/Downey	198	5,597,512	0	0	73,931	1.32%	63,724	1.14%	$1.17	20,297	66,006	131,540	158,047
Buena Park/La Palma	233	15,058,712	0	0	78,761	0.52%	430,517	2.86%	$0.93	149,894	299,409	402,748	618,118
La Mirada	179	13,110,165	0	0	311,496	2.38%	409,212	3.12%	$1.00	430,305	473,131	266,828	541,464
Norwalk	88	2,874,315	0	0	24,997	0.87%	47,147	1.64%	$1.07	14,906	258,904	63,142	266,408
Paramount	408	8,995,812	0	0	131,547	1.46%	180,502	2.01%	$0.96	111,346	195,537	99,617	251,298
Santa Fe Springs	1,351	53,702,901	174,863	460,134	299,051	0.56%	575,530	1.07%	$1.08	299,792	652,719	1,168,214	1,825,106
Whittier	164	4,121,940	0		23,352	0.57%	11,668	0.28%	$1.00	94,823	95,590	191,069	232,207
Total	2,901	116,617,431	174,863	460,134	1,183,673	1.02%	2,128,583	1.83%	$1.03	1,325,381	2,346,301	2,759,426	4,682,948
San Gabriel Valley													
Alhambra	116	2,216,751	0	0	35,815	1.62%	51,871	2.34%	$0.00	65,450	45,795	101,265	140,021
Arcadia/Temple City	142	3,129,634	0	0	43,525	1.39%	106,306	3.40%	$1.14	45,629	38,910	56,611	75,508
Azusa	241	6,585,300	0	96,950	106,811	1.62%	167,980	2.55%	$1.27	275,632	804,341	365,383	632,107
Baldwin Park	244	4,666,621	0	0	59,442	1.27%	67,518	1.45%	$1.25	(22,635)	(25,631)	24,832	126,179
City of Industry/DB/HH/RH	1,110	73,587,841	280,250	654,491	1,019,296	1.39%	1,450,345	1.97%	$1.08	555,556	882,089	1,269,732	2,433,881
Covina/West Covina	181	3,391,642	0	0	114,006	3.36%	156,181	4.60%	$0.00	706	(2,240)	12,746	12,746
Duarte	70	1,800,654	0	0	66,139	3.67%	16,435	0.91%	$1.50	15,287	(7,579)	22,866	57,598
El Monte	317	8,490,535	60,579	0	116,602	1.37%	207,083	2.44%	$1.50	42,806	591,941	68,506	795,262
Irwindale	263	11,208,846	848,131	1,945,105	111,105	0.99%	621,673	5.55%	$1.27	113,982	115,195	160,457	269,941
La Puente	91	1,975,727	0	0	14,372	0.73%	21,672	1.10%	$1.15	200	60	2,900	4,700
La Verne/San Dimas/Glendora	315	6,755,780	0	0	125,119	1.85%	104,245	1.54%	$0.00	(29,703)	(282)	80,820	119,273
Monrovia	205	3,309,913	0	0	1,186	0.04%	67,055	2.03%	$1.50	16,652	(516)	34,243	51,807
Pomona/Claremont	661	20,176,002	0	0	233,897	1.16%	251,258	1.25%	$1.10	(39,885)	(764)	113,110	469,720
Rosemead/San Gabriel	119	2,368,037	0	0	5,500	0.23%	6,746	0.28%	$0.00	7,680	7,280	7,680	12,780
South El Monte	827	10,902,875	0	0	130,270	1.19%	72,475	0.66%	$1.25	(38,404)	(27,863)	70,246	141,631
Walnut	194	6,787,019	143,999	0	344,628	5.08%	446,660	6.58%	$1.44	(34,880)	(76,259)	28,129	78,050
Total	5,096	167,353,177	1,332,959	2,696,546	2,527,713	1.51%	3,815,503	2.28%	$1.18	974,073	2,344,477	2,419,526	5,421,204
South Bay													
Carson	498	35,398,461	145,840	126,013	280,229	0.79%	577,135	1.63%	$1.05	307,942	658,020	1,147,405	1,734,836
Compton	470	24,973,776	0	0	698,890	2.80%	592,330	2.37%	$1.25	(31,421)	(37,205)	392,686	878,228
El Segundo	160	8,618,107	0	0	112,869	1.31%	114,950	1.33%	$0.00	21,711	25,670	34,775	89,859
Gardena	1,175	28,654,900	0	91,465	580,235	2.02%	975,654	3.40%	$1.18	78,324	(30,906)	494,416	758,802
Harbor City	93	1,756,313	0	0	16,836	0.96%	35,636	2.03%	$1.39	4,464	3,964	13,800	34,600
Hawthorne	218	7,789,559	0	48,080	160,975	2.07%	229,712	2.95%	$2.00	(4,450)	(52,898)	86,233	142,075
Inglewood	240	4,922,984	0	0	291,711	5.93%	459,446	9.33%	$1.09	(70,398)	(65,780)	43,063	72,231
Lakewood/Hawaiian Gardens	25	563,155	0	0	0	0.00%	0	0.00%	$0.00	0	0	0	0
Lawndale	29	253,076	0	0	8,745	3.46%	8,745	3.46%	$0.00	(8,745)	(8,745)	0	0
Long Beach/Terminal Island	738	23,687,859	415,160	92,245	459,086	1.94%	689,222	2.91%	$1.09	132,841	385,115	512,675	1,164,429
Lynwood	99	4,696,893	0	0	0	0.00%	9,600	0.20%	$0.00	5,700	5,700	5,700	10,700
Rancho Dominguez	236	14,614,621	0	27,842	334,484	2.29%	725,863	4.97%	$1.26	38,486	86,034	270,565	429,769
Redondo & Hermosa Beach	37	1,817,684	0	0	2,500	0.14%	2,500	0.14%	$1.75	236,134	5,600	236,134	241,734
San Pedro	43	2,751,799	0	0	2,442	0.09%	2,442	0.09%	$0.00	0	0	0	0
Signal Hill	202	3,372,622	0	49,900	85,115	2.52%	132,820	3.94%	$1.45	(14,978)	(42,573)	20,086	43,900
Torrance	615	26,747,916	123,700	1,385,081	745,999	2.79%	610,260	2.28%	$1.40	76,378	518,963	735,755	998,827
Wilmington	147	3,821,925	0	0	23,728	0.62%	55,965	1.46%	$1.15	(7,500)	(728)	0	6,772
Total	5,025	194,441,650	684,700	1,820,626	3,803,844	1.96%	5,222,280	2.69%	$1.17	764,488	1,450,231	3,993,293	6,606,762
Los Angeles Total	**20,782**	**739,032,280**	**2,963,563**	**6,088,650**	**12,974,981**	**1.76%**	**21,724,463**	**2.94%**	**$1.09**	**3,680,774**	**7,597,791**	**12,849,446**	**24,237,076**
5,000-24,999	13,655	166,228,867	21,484	81,422	3,329,755	2.00%	4,553,287	2.74%	$1.22	329,045	341,168	2,333,914	4,318,916
25,000-49,999	3,565	123,752,266	341,862	536,105	3,099,958	2.50%	3,915,362	3.16%	$1.07	576,622	1,328,805	2,248,436	4,492,243
50,000-99,999	1,988	135,242,468	124,579	574,816	2,983,518	2.21%	4,455,535	3.29%	$1.00	660,378	1,587,804	2,484,968	4,633,873
100,000-249,999	1,258	186,722,600	1,241,465	1,930,956	3,135,420	1.68%	5,162,039	2.76%	$1.02	944,353	2,127,616	3,468,785	7,290,199
250,000-499,999	258	83,611,649	705,463	1,109,351	358,055	0.43%	1,688,937	2.02%	$1.61	819,257	1,311,039	1,613,683	2,137,545
500,000 plus	58	43,474,430	528,710	1,856,000	68,275	0.16%	1,949,303	4.48%	$0.00	351,119	901,359	699,660	1,364,300
Los Angeles Total	**20,782**	**739,032,280**	**2,963,563**	**6,088,650**	**12,974,981**	**1.76%**	**21,724,463**	**2.94%**	**$1.09**	**3,680,774**	**7,597,791**	**12,849,446**	**24,237,076**

This survey consists of buildings greater than 5,000 square feet. Lease rates are on an industrial-gross basis.

Voit REAL ESTATE SERVICES

The Skinny on the Proposed American Families Plan

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As we begin the second half of 2021, it is safe to say that most folks involved in the investment community are anxiously waiting to see how the new administration's tax plan unfolds. The most talked about items of the American Families Plan are the capital gains rate, step up in asset basis and carried interest.

In broad strokes, the current top-level, long-term capital gains rate of 20% is being proposed to increase to 39.6% (for investors with income over $1M). Also, the Net Investment Income Tax (NIIT) will also continue at 3.8%, which brings the new proposed long term capital gains rate to 43.4%.

The other hot topic tax rule the step-up in basis rule. Under the current rule, the step-up in basis rule allows assets to be transferred at death without paying capital gains tax on the appreciation in value. As an example, say an investor purchased a property for $500,000 and, once passed down to the beneficiary at a later date, it was valued at $750,000. After holding onto the property for some time, the beneficiary ends up selling the property for $1,000,000. As such, a tax payment will be due based upon $250,000, which came from the difference between the $1,000,000 selling price and the step-up in basis of $750,000. On the other hand, without a step-up in basis, the above example would now be a tax payment based on $500,000 instead of the $250,000 amount.

Most of the attention has been given to the above two tax items, however, the elimination of carried interest could also be significant. Carried interest is a percentage of the profits generated by a hedge fund or private equity fund and is typically included in the managing partner's compensation. As such, carried interest plays an important role in encouraging the fund's performance.

Currently, carried interest is seen as a return on investment. Being so, it is taxed now at the 20% capital gains rate as opposed to the regular income tax rate of 37% (for those whose incomes are over $1M.)

The legislation under consideration, if approved, would raise the long-term capital gains tax rate for investors to whatever federal rate the owner is currently paying on ordinary income. So, for investors with income above $1M, the percentage would nearly double from 20% to 39.6%.

However, carried interest is not easily achieved. It should be noted that if the managing partner of the hedge fund or private equity fund does not achieve the agreed upon rate of return, then the partner does not receive a carried interest. Instead, they may even have their share "clawed back" for lackluster performance.

Some believe that plans will get trimmed down a bit and try to "meet somewhere in the middle" but only time will tell.

Product Type

MFG./DIST.
Manufacturing / Distribution / Warehouse facilities with up to 29.9% office space.

Submarkets

CENTRAL
Bell / Bell Gardens / Maywood, City of Commerce, Huntington Park / Cudahy, Downtown, Montebello / Monterey Park, Pico Rivera, South Gate, Vernon

MID COUNTIES
Artesia / Cerritos, Bellflower / Downey, Buena Park / La Palma, La Mirada, Norwalk, Paramount, Santa Fe Springs, Whittier

SAN GABRIEL VALLEY
Alhambra, Arcadia / Temple City, Azusa, Baldwin Park, City of Industry / DB / HH / RH, Covina / West Covina, Duarte, El Monte, Irwindale, La Puente, La Verne / San Dimas / Glendora, Monrovia, Pomona / Claremont, Rosemead / San Gabriel, South El Monte, Walnut

SOUTH BAY
Carson, Compton, El Segundo, Gardena, Harbor City, Hawthorne, Inglewood, Lakewood / Hawaiian Gardens, Lawndale, Long Beach / Terminal Island, Lynwood, Rancho Dominguez, Redondo & Hermosa Beach, San Pedro, Signal Hill, Torrance, Wilmington

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